

RENOLOAN

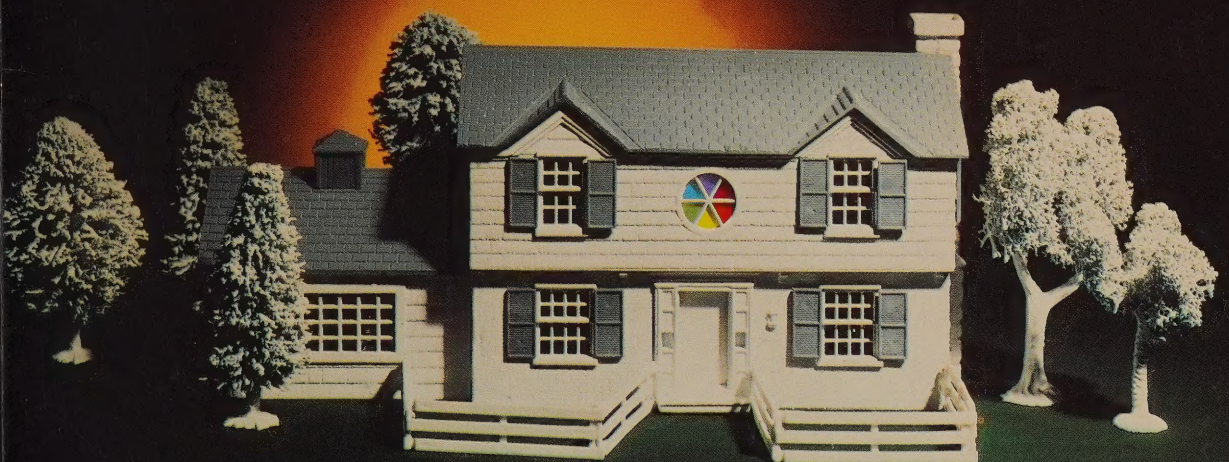
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Renovation Financing Made Easier



Ontario's housing stock is getting older and as a result more renovation and home improvement activity is taking place. Improving a home's energy efficiency, for instance, is an increasingly popular project. More people these days are choosing to renovate rather than move. At the same time, builders are becoming active in the revitalization of older neighbourhoods.

Whether you are a homeowner thinking of improving your home or a builder who specializes in contract or speculative renovation, RenoLoan is designed to assist you. This booklet outlines how RenoLoan works; it will also acquaint you with the renovation process by giving examples of what to do, what to look out for and how to apply for a loan under this program.

RenoLoan was developed by the Mortgage Insurance Company of Canada (MICC) with co-operation and support from the Ontario Ministry of Municipal Affairs and Housing. Mortgage financing under RenoLoan is funded by private sector lenders who are protected against default by MICC mortgage insurance.



This booklet is intended as a guide only and neither MICC, the Province of Ontario nor distributors of this publication will be held responsible for any decisions or actions taken by persons or organizations based on advice stated herein.

May, 1984

Introducing RenoLoan

Are you planning a major renovation for your home? Or are you planning to buy a house and would like to renovate before you move in? RenoLoan can make it easier and more economical for you to finance your planned renovation.

Until now, if you were planning a renovation, you would probably have had to take out a personal loan, increase your present mortgage or pay cash. Alternatively, you would have had to spread the renovation work over several years.

Many leading mortgage lenders have regarded renovation financing as higher risk, more complex and costlier to administer. To the extent that mortgage financing has been available, it has typically meant arranging first a short-term loan for the construction period, and then a longer-term completion loan. This 2 loan—2 lender process invariably results in duplication of effort and costs. Another additional expense has been the higher rates of interest usually charged for the construction period loan.

RenoLoan has been designed to address all these problems and to streamline typical renovation financing.

The program is designed to cover virtually all home improvements. Since mortgage financing for small amounts is generally not cost-effective, the program is intended primarily for extensive renovation jobs rather than minor home improvements.

RenoLoan is being introduced simultaneously in a number of high-demand areas and will eventually expand to include a majority of households in the province. See participating lenders for details.

The RenoLoan standards which have been established advocate and encourage a high level of professionalism in renovation.

What It Can Do For You

- 1** You do not need to arrange for two separate loans. Many lenders will now make available a single renovation loan for both the construction (interim) funds and the long term financing.
 - 2** You do not need to apply to two different lenders for financing. Under RenoLoan, you will only have to deal with one lending institution.
 - 3** You now have a greater number of participating lenders to choose from under this program.
 - 4** You can now obtain attractive financing at prime market rates because of the protection this program offers the lender.
 - 5** You can avoid piecemeal renovations from year to year, because a greater supply of renovation funds is available at flexible terms and repayment periods of up to 25 years.
- In essence, this means you can plan and undertake major construction and other home improvements efficiently and economically because renovation financing is now more affordable.
- 6** You can arrange for either a new first mortgage or a new second mortgage, if the terms of the first are still beneficial to you. A repayment period of up to 25 years can also be arranged for a second mortgage under this program.
 - 7** Professional appraisal and property inspection, together with an extensive list of publications on renovating, will help you plan your home improvements properly and maximize your investment.
 - 8** An innovative feature under RenoLoan allows you to include "arrangement" fees, such as appraisal, legal and application fees, in the loan rather than having to pay cash for them, out-of-pocket.



Making Plans

A successful home renovation should not only improve your living space, but should be completed on time and within your budget. Realizing these goals requires a great deal of planning. You will need to solidify your ideas, determine your budget, put your plans on paper and find the right person to do the job.

As you work through the planning process, keep these thoughts in mind:

- Be clear and specific in conveying ideas to the other people involved in your renovation or improvement project. When you are discussing ideas with your spouse or your contractor, it is important that everyone understands what is being said.
- The best price is not necessarily the lowest one. In many cases, excessively low prices reflect second rate materials and workmanship or a misunderstanding of the scope of the job.
- Carefully choose all the people you will be employing for your renovation—the architect/designer, contractor or tradesmen. Check out their references, see examples of their work, talk to people who have dealt with them, and shop around for the best value.
- Consider the opportunities for including energy conservation measures while you renovate. Whenever possible, improve your insulation levels, reduce those cold winter drafts and be sure that your heating system is working to maximum efficiency. Investing a little extra time and money in energy-conserving measures can lead to substantial long-term savings.
- Arrange your financing ahead of time. RenoLoan has been established to help you arrange your financing after the planning stage, but before the work is undertaken. The following sections of this booklet outline the program guidelines and suggest the best way to proceed with your renovation.



What You Should Know

Q *Does My Property Qualify?*

A It probably does; almost any home which is the principal residence of the borrower would be eligible for a RenoLoan. This includes all residential, self-contained, single family, duplex, triplex, and condominium units. There are no limitations on the age of the property.

Q *What Type of Loan Can I Obtain?*

A Both first and second mortgages are available, depending on your circumstances, needs, and qualifications. These mortgage funds are available for:

- renovation and rehabilitation work contracted by existing homeowners,
- renovating a recently purchased home before moving in, and
- builder purchase of houses for renovation and resale.

Both construction financing and long-term financing will be available. Homeowners may also refinance existing mortgage loans through the program, provided that the new net proceeds are used for the purpose of home improvements.

Q *Is It Any More Difficult to Qualify for a Loan Under This Program Than for an Ordinary Mortgage?*

A No, the criteria for homeowner applicants are the same under this program as they are for traditional mortgage lending programs. One of the main advantages of this program is that the maximum loan available is based on an estimate of what the house will be valued at after the renovations are complete. Builders renovating for speculation may have to meet additional requirements.

Q *What Type of Improvements/Renovations are Eligible?*

A Improvements and renovations that enhance the marketability of the property should qualify for a RenoLoan.

The most common examples are: structural repairs and alterations, modernizing the plumbing, upgrading electrical and heating systems, kitchen and bathroom renovations, recreation rooms, garages, new roofs, additions and energy conservation measures.

All work must be specified in a contract and completed in a professional manner.



Q *Do Pools, Landscaping, etc., Qualify?*

A Mortgage financing is not normally available for items that can be removed. However, under this program, items such as major appliances, in-ground pools, etc., will be considered. Permanent professional landscaping which enhances the property will be considered as well.

Q *Who Can Do the Work?*

A Since this is intended as a professional renovation and home improvement program, all work should be completed by an experienced contractor retained by you under a written contract.

Q *What is the Minimum Equity I Need to Qualify?*

A The minimum equity requirement under the program is 15 per cent.

Q *Is There a Maximum or Minimum Loan Amount?*

A There is no pre-set maximum or minimum dollar amount for loans under the RenoLoan program. Each project is considered individually and the maximum loan for that project is based on the total value of the property after improvements. Loans can be available for up to 85 per cent of the appraised value of the house after renovation. This maintains your minimum 15 per cent equity.

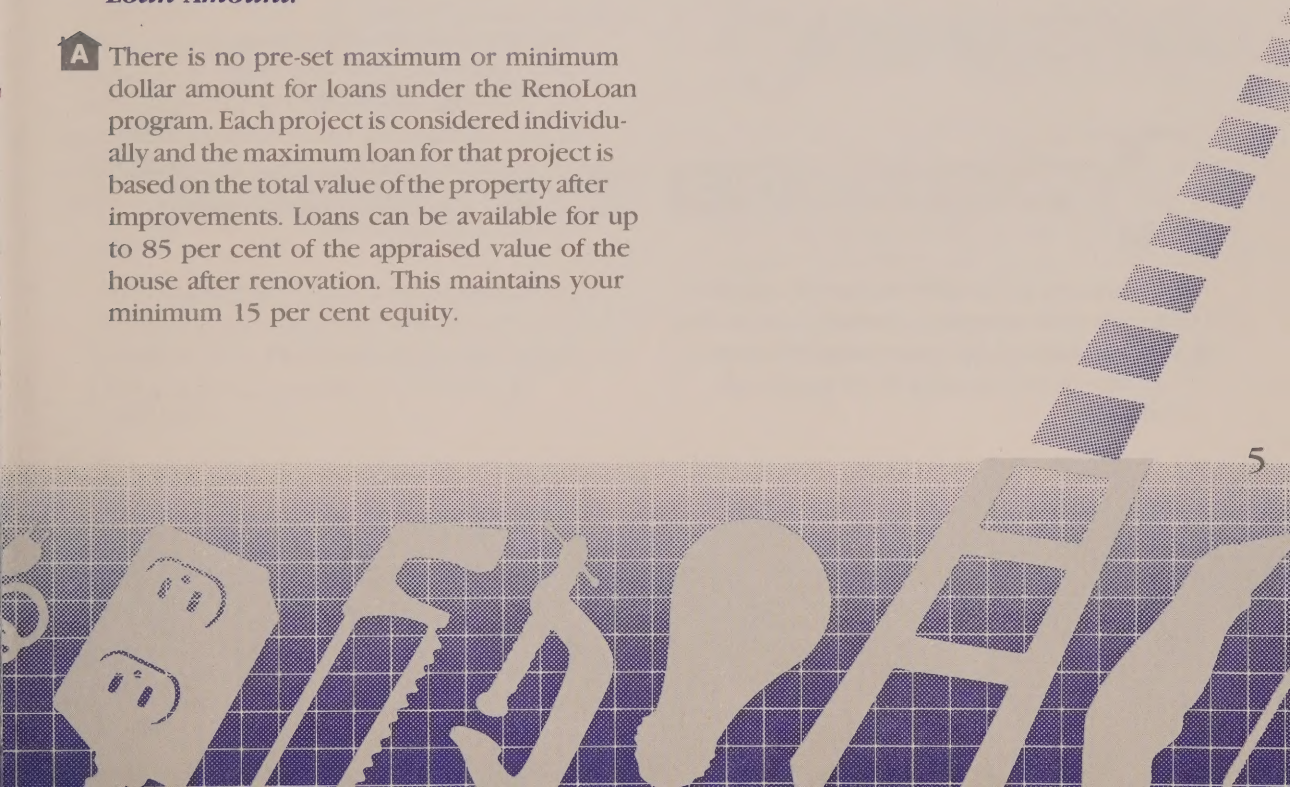
Q *How Do I Know How Much I Can Afford?*

A You should decide how much loan you can afford before you talk to a contractor. This will help you to keep your plans reasonable and practicable.

As a general rule, the total cost of mortgages, including principal and interest, plus your taxes should not exceed 30 per cent of your total family income.

Q *What Costs are Involved in Obtaining the Financing?*

A Mortgage financing may involve paying a one-time fee of the mortgage insurance premium as well as appraisal, legal and other fees. These expenses are typical costs of arranging a mortgage. Under RenoLoan, you can either add these costs to the loan or pay cash for them.



How To Get Started?

1 START FROM SCRATCH

The first step of the renovation process involves testing your ideas against your budget and putting your thoughts on paper.

Talk to as many people and see as many projects as possible. Keep a file of design features you think might be relevant. Refine your initial "back of the envelope" sketches as your ideas become clearer. Your ideas should be continually tested against estimated costs and your budget.

When you are satisfied with your plans, you should transfer these ideas to paper. Draw up your plans in as much detail as you can, and write down the materials and techniques to be used, being as specific as possible. These plans will not only help you clarify your ideas, but will ensure accurate bidding on the work, and they can eventually be used for obtaining any required permits. The final plans and specifications will often be drawn up by an architect, designer, draftsman, or in concert with your contractor.

2 SELECT A CONTRACTOR

The Renoloan program is designed for professional renovations and any general contracting (i.e. arranging for and supervising subcontractors) should be carried out by a general contractor.

Select two, or preferably three, contractors to bid on the work and provide you with written estimates. You will be looking for companies with good reputations. Please refer to the section of this booklet entitled "Who Is The Contractor?" to assist you in making your final selection. If you are using the full services of an architect, he or she will co-ordinate steps two and three, under your supervision.

3 PUT IT IN WRITING

Once you have chosen a contractor, the next step is to prepare a detailed written contract. The contract should outline a description and costing of the work, including materials and labour, start and completion dates, responsibilities of the respective parties, terms of payment, etc. The items to be included are explained fully in the section "A Good Contract Should...".

It is a good idea to review the written contract with your lawyer before you sign it. When you apply for a RenoLoan, the contract should be signed and dated by the Contractor. If you sign as well, make sure that it is subject to obtaining approved financing and any necessary building permits and approvals.



4 APPLY FOR RENOLOAN

You have decided on the work, you know approximately how much loan you can afford, you have selected a contractor, agreed on a price and you have a contract. You are now ready to apply for a loan through a participating lender.

In order to complete an application, the lending institution will require a copy of the contract, plans and specifications (as applicable), details of any existing mortgages, and a verification of income from your employer. Details of any outstanding debts and bank and credit references will also be required for the lender to do the usual credit investigation.

If you are buying a house, you will be asked for a copy of the accepted Agreement of Purchase and Sale. Make sure you have all the necessary documents ready before you approach the lender. Being prepared in advance will help to avoid delays in processing your application.

5 THE PAPERWORK

The lending institution will request an inspection and appraisal of the property and order a credit report. The lender will then underwrite the loan in accordance with internal guidelines.

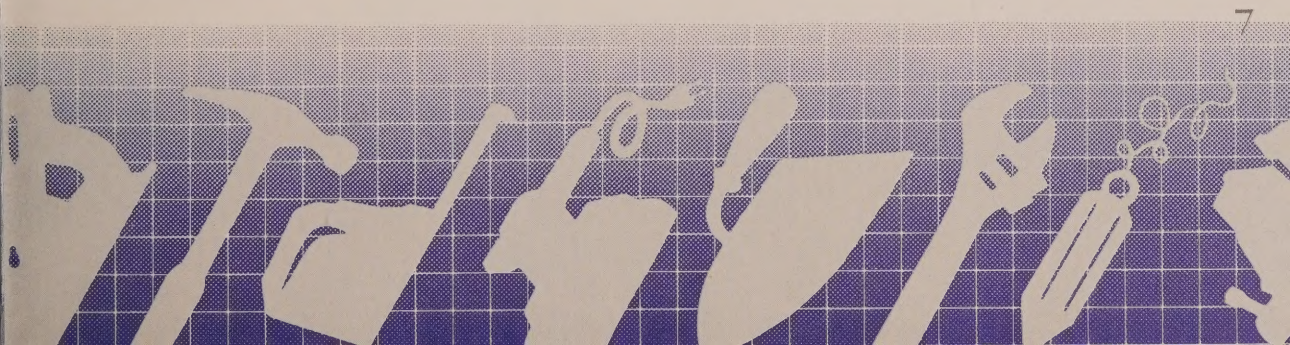
When the loan is approved, the lender will issue to you a commitment indicating the amount. The commitment will most likely be conditional upon receipt of a contract signed by both you and the contractor, a building permit and any other required permits. The commitment will outline the method of disbursement of funds and repayment terms.

Where construction advances are required, a representative of the lender will inspect the work at various stages to determine the cost of completion and the appropriate advances to be made. Your contractor will be required to arrange for the municipality to inspect the work at various stages. This is to ensure that it complies with municipal regulations, the Ontario Building Code and the approved plans and specifications.

The quality and the progress of the work is the responsibility of the contractor and not the lender.

6 LET'S RENOVATE

Once the approved financing has been arranged, the Contract has been executed, a building permit has been issued (if applicable) and the conditions of loan approval have been satisfied, the work can begin. The lender will make funds available to the borrower in accordance with periodic inspections of the work and the terms of both the loan commitment and the contract.



For Example...

- 1 John and Mary Smith's house needs repairs to the roof and it needs the plumbing upgraded; they also want to finish the basement and add a fireplace.

The Smiths make notes and sketches of their ideas, and decide approximately how much they can afford to spend.

- 2 After checking with friends and neighbours for contractor references, they arrange for 3 estimates for the work. One contractor gives them good advice on upgrading the furnace and making the house more energy efficient. They ask this contractor to prepare a quote with drawings and specifications based on their discussion.

- 3 The quote for \$25,000 is accepted and the contractor prepares a contract, which they review with their lawyer before signing. The contract is executed, conditional upon arranging the financing.

- 4 The Smiths make an appointment with a lending institution and are asked to bring with them a copy of the contract, the plans and specifications, and details of savings, employment and any outstanding debts. The lender orders an appraisal and inspection of the property and verifies credit and employment information.

The appraisal reveals that the current market value of the property is \$60,000, and that upon completion of the improvements the property will be valued at \$85,000, in keeping with comparable homes in the neighbourhood.

After consulting with their lender, the Smiths decide that they will require a new first mortgage of \$63,750 to pay off their existing first mortgage and to provide funds for both the construction period and completion. The Smiths qualify for the loan requested, as the mortgage payments and taxes are less than 30% of their gross family income.

- 5 John and Mary decide that they prefer not to pay cash for legal and appraisal fees, mortgage insurance premium, etc., and the loan is approved as follows:

Basic Loan Amount	\$63,750
Plus: Lender Processing and	
Inspection Fee	\$300
Appraisal Fee	150
Legal Fees	600
MICC Application Fee	75
	<u>1,125</u>
	\$64,875
Plus: One Time, Mortgage	
Insurance Premium	
(2% of \$64,875)	<u>1,298</u>
Total Insured Loan Approved	\$66,173

The lender issues the loan commitment subject to the necessary permit approvals and advises the Smiths about how advances will be made, with the appropriate holdbacks.

- 6 The contractor prepares working drawings and obtains permit approvals. With the conditions of the loan satisfied, the work can begin. When it is finished, the Smiths have a fully refurbished, marketable, more energy-efficient home. Their renovation has been accomplished within their budget constraints because they have affordable financing.

Who Is The Contractor?

Choosing the right contractor may well be the most important step of a successful renovation. The final responsibility for the finished product—workmanship, costing, timing, and durability—will rest with the contractor.

You should talk to at least three contractors before making your choice. Get references from friends and neighbours who have had work done on their houses; contractors who have left satisfied clients are your best bet. Look at the contractor's recent work; ask the homeowner about the contractor's ability to work to a schedule, the payment terms, whether the contractor assisted in the development of the plans, and whether the job was performed on budget. Make sure that the workmanship meets your standards. What you see is probably very close to what you will get.

The working relationship between you and your contractor will be subjected to many ups and downs throughout the renovation. Make certain that there is a good rapport and that you are comfortable discussing issues related to the renovation.

Your choice will often be influenced by the prices quoted by the different contractors. If you have researched the track records and references of several contractors and are comfortable with their work, price may be the determining factor. When you compare costs, make certain that you are not comparing apples and oranges. If your plans have been thoroughly developed, all bids will be based on the same work. If not, have the contractors specify exactly what is included in their estimates.

As part of a major renovation, your contractor may request a down payment. The amount of the down payment should be kept to a minimum—10 per cent or less—unless the contractor is being asked to make a deposit for the purchase of custom materials. If a down payment is needed, have the specific amount identified in the contract and obtain a signed receipt when you pay.

Most smaller jobs can be handled with only one or two payments to the contractor. Larger renovation work may require interim payments which should always be tied to the completion of specific steps throughout the job. It is standard practice to make payment after certain aspects of the job have been "signed off" by the building inspector (such as foundation, framing, insulation, etc.). Holding back 10 per cent of each payment is required to protect yourself against liens. The lender will retain any holdbacks on your behalf.

The final payment should never be made until all aspects of the job are completed as specified in the contract.

A Good Contract Should...

Regardless of the relationship you may have developed with your contractor, your understanding must be written down. A written contract should specify the work to be performed, outline your responsibilities and the contractor's, and it should specify the duration of the job and the terms of payment. The final contract should be signed by both parties, with each keeping an original copy.

While there is no such thing as a standard renovation contract, Ontario's Consumer Protection Act does set out specific items which must be included in a contract to ensure its effectiveness. These, and other items that should be mentioned, include:

- The contractor's name and address and your own. The contractor should state the company's full name, address, telephone number and the name of its official representative.
- A detailed description of the work to be done and the materials to be used. This should include work which is being subcontracted. Exact job specifications must be in writing, together with any appropriate drawings. Don't accept verbal assurances.
- A statement that all necessary permits will be obtained by the contractor; this may include demolition, building, plumbing or electrical permits.
- A statement that all work will be done in accordance with plans and specifications and with local building codes.
- Specific dates for both starting and completion.
- A statement that it is the responsibility of the contractor to maintain a clean site and to remove all debris as soon as construction is completed.
- A statement of all guarantees or warranties, explaining what is covered and for how long.
- A statement of the contractor's public liability and property damage insurance, and coverage of employees and sub-trades under Worker's Compensation.
- Price and terms of payment. Wherever possible, it is advisable to get a "fixed price" contract. Depending on the type and scale of the work, you may want a "cost-plus price", which covers any possible contingencies and unforeseen problems which may arise. Note that all cost-plus contracts must have an "upset price" limit under RenoLoan that sets out the maximum cost of the job.

Changes and additions commonly occur before the job is finished because construction problems require them, materials are no longer available, or you want something different. For the protection of both parties, all changes should be made in writing and approved by you. The lender may also wish to approve such changes.

If Things Go Wrong

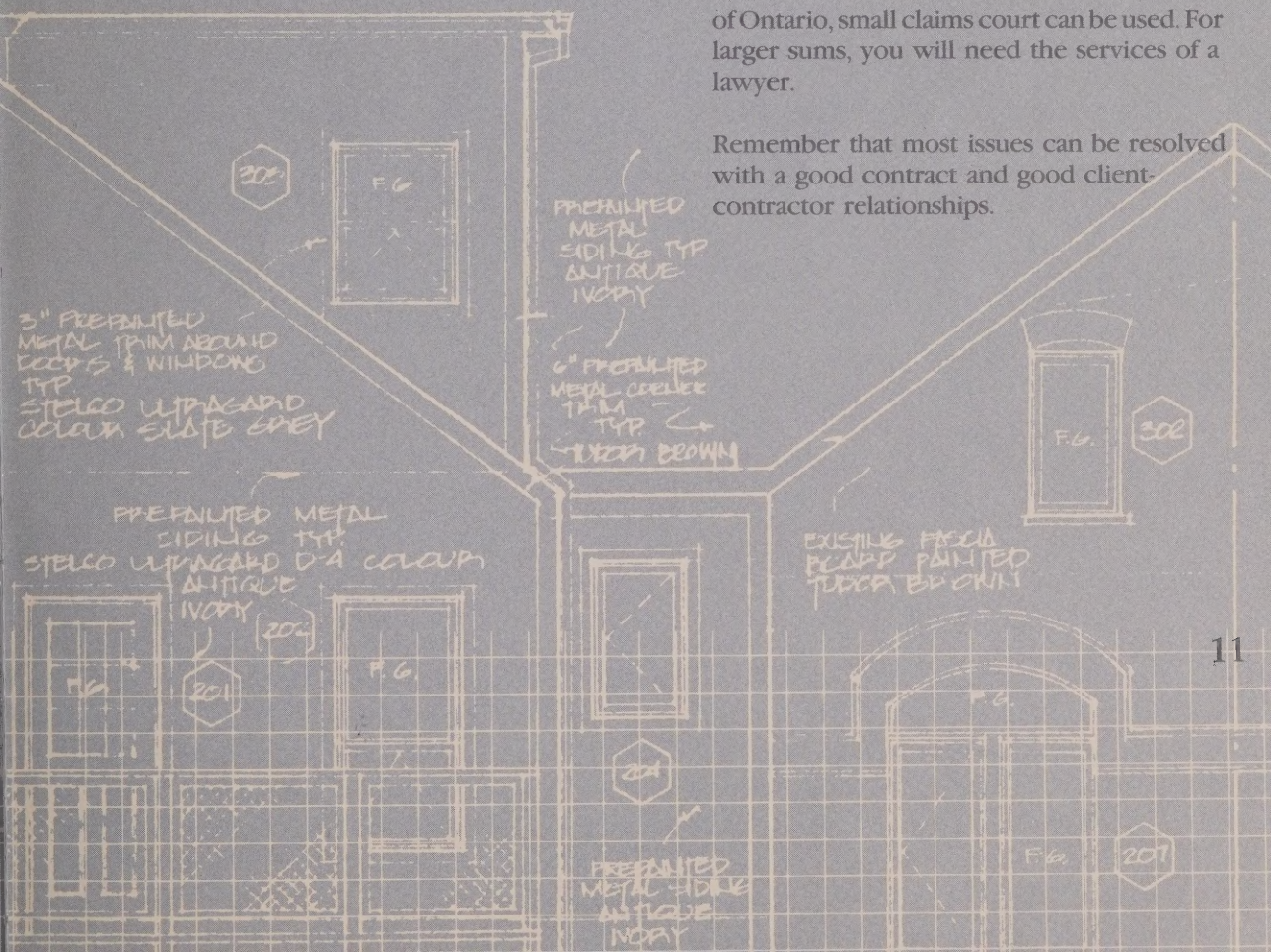
Although you have tried to account for all contingencies in choosing your contractor and writing your contract, some unforeseen disagreements might arise. Bad weather may force scheduling delays. Uncovering hidden structural damage may demand costly and time-consuming additions to the contract. Some aspect of the job may have been overlooked in the original contract negotiations.

When disagreements arise, first try to understand the contractor's view which is often right. In most cases, an amicable discussion with the contractor will resolve the difference of opinion. If the dispute continues, you should seek a second opinion of the contract. Talk with a knowledgeable friend or your lawyer.

If the problem has not been resolved, you can send the contractor a registered letter outlining your complaint and requests. The letter should state the measures you will take if the contractor doesn't comply—withholding payment, hiring another contractor, and requiring the return of any down payment can all be suggested. The letter may receive prompt action if it notes that copies are being sent to the Consumer Protection Branch of the Ministry of Consumer and Commercial Relations and the Better Business Bureau. Both of these bodies will look into complaints and can mediate between you and your contractor. Most contractors will attempt to resolve the issue before things get this far.

As a last resort, you can take contractual disputes to court. If the money involved is less than \$3000 in Toronto or \$1000 in the rest of Ontario, small claims court can be used. For larger sums, you will need the services of a lawyer.

Remember that most issues can be resolved with a good contract and good client-contractor relationships.



For More Information

Most major banks, trust companies and other lending institutions are participating in the RenoLoan program. Contact them for further information or call your nearest Mortgage Insurance Co. of Canada office to get the names of participating lenders in your area—
Toronto: (416) 364-6884
Hamilton: (416) 523-7700
Ottawa: (613) 238-4753
London: (519) 433-6177

The following Ministries offer free publications that contain useful information and advice on renovation and rehabilitation, energy conservation and technical information relating to the various components of a home.

- Ministry of Consumer and Commercial Relations
Consumer Information Centre
555 Yonge Street, Ground Floor
Toronto, Ontario
M5A 2H6
1-800-268-1142, in Toronto call 963-1111

How to Buy a House
A Practical Guide to Home Repairs

- Ministry of Municipal Affairs and Housing
Housing Renovation and Energy Conservation Unit
777 Bay Street, 2nd Floor
Toronto, Ontario
M5G 2E5
(416) 585-6514

Booklets:

Plans, Permits and Payments: A Guide to Successful Home Improvements
Conserve Energy When You Renovate
First, Seal Your House
Make the Most of Your Heating System
Seven Days of Conservation
A Window Review
Energy Conservation Products

Factsheets:

Fresh Air and Humidity in a Tighter House
Caulking and Weatherstripping
Air-Vapour Barriers
Improving Fireplace Efficiency
Insulating Basements
Exterior Insulation
Cathedral Ceilings and Flat Roofs

